

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION
of the Charitable Gift Annuity Business
of the
Corporation of the Catholic Archbishop of
Seattle, Washington

DECEMBER 31, 2004

Order No. G 07-14
Corporation of the Catholic Archbishop
Exhibit A

SALUTATION

Seattle, Washington
February 7, 2007

The Honorable Mike Kreidler, Commissioner
Washington Office of the Insurance Commissioner (OIC)
Insurance Building, Capitol Campus
302 – 14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business (CGAB), an examination was made of the corporate affairs and financial records of the CGAB of the

Corporation of the Catholic Archbishop

of


Seattle, Washington

hereinafter referred to as “the Corporation” at its office at 910 Marion Street, Seattle, Washington 98104-1299.

This report of examination is respectfully submitted showing the condition of the CGAB of the Corporation as of December 31, 2004.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of the Corporation of the Catholic Archbishop of Seattle, Washington. This report shows the financial condition of the Charitable Gift Annuity Business and related corporate matters of the Corporation of the Catholic Archbishop of Seattle as of December 31, 2004.


Patrick H. McNaughton
Chief Examiner

2-7-2007
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2000 through December 31, 2004. The financial statements include the entire Corporation. However, the scope of our examination focused only on the transactions and operations of the CGAB. The Corporation's records, along with various aspects of its operating procedures and financial reports, were reviewed and tested during the course of this examination as necessary to substantiate CGAB reporting. The results of the examination are commented upon in the various sections of this report. In addition, the Corporation's Certified Public Accountant's (CPA's) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

The examination was conducted in accordance with the statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination was conducted at the Corporation's Seattle office by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed the Corporation's CGAB Annual Reports as part of the statutory examination. This review was performed to determine if the Corporation completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the Corporation's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

1. Annuities Payable

RCW 48.38.020(1) requires that each entity authorized to conduct Charitable Gift Annuity (CGA) business must maintain a separate reserve fund adequate to meet its future CGA payments. The Corporation's consulting actuary computed the required CGA reserves in accordance with RCW 48.38.020. However, the Corporation did not record this amount as its CGA reserve fund. This resulted in a \$2,365,000 understatement of the CGA reserves and a corresponding overstatement of Unrestricted Net Assets. Examination Adjustment A1 reduces the Corporation's Unrestricted Net Assets and increases its CGA Reserves by \$2,365,000 to correct these omissions.

In accordance with RCW 48.38.020(1), the Corporation is instructed to properly record and maintain its CGA reserves on a current basis, as computed in accordance with RCW 48.38.020(3)(a),(b), and (c).

2. Reporting Requirements

The following errors were identified during our review of the Corporation's 2004 Annual Report:

- The Statement of Income and Expenses did not include the changes in net assets from Fixed Asset Fund depreciation, Crozier Society and Mission activity, and other immaterial amounts. The missing account activity was as follows:

Fixed Asset Fund depreciation and other small amounts	(\$2,152,000)
Restricted Crozier Society and Mission Activity	(\$60,000)

- Annuity custodial activity totaling \$319,000 was incorrectly credited as an addition to unrestricted funds but should be shown as a liability.

The Corporation operates on a June 30 fiscal year basis. The primary cause of the financial reporting errors was an attempt to manually produce its annual statement on a calendar year basis without adequately reconciling and reviewing the output. As a result, the Corporation did not comply with the OIC Annual Report Instructions to file a complete and accurate calendar year annual report. Examination Adjustment A2 corrects the above errors.

RCW 48.38.010 states that: "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (10) Which: (a) Files with the insurance commissioner on or before March 1 of each year a copy of its annual statement prepared pursuant to the laws of its state of domicile, ..."

The Corporation is instructed to develop and implement a system to completely and accurately account for and report its charitable gift annuity business on a calendar year basis or to seek approval for reporting on a fiscal year basis.

3. Annuity Contract Form

The Corporation is using an annuity contract form which has not received advance approval from the Office of the Insurance Commissioner (OIC). RCW 48.38.010 (9) requires such advance approval by the OIC.

On December 19, 2005, the Corporation's annuity contract form was approved by the OIC.

In accordance with RCW 48.38.010 (9), the Corporation is instructed to obtain the OIC's advance approval for any policy or contract form.

COMMENTS AND RECOMMENDATIONS

1. Conflict of Interest Policy

The Corporation does not have a conflict of interest policy.

It is recommended that the Corporation implement a conflict of interest policy and develop a standard conflict of interest statement. Key employees should be required to review the policy and submit a signed statement on an annual basis.

2. Documentation of Closed Annuity Contracts

The Corporation does not obtain full documentation to sufficiently support the transfer to the Corporation of the remaining annuity fund of deceased annuitants.

It is recommended that the Corporation obtain and retain full and adequate documentation of an annuitant's death. This includes a certified copy of the death certificate, and any other relevant data gathered by or furnished to the Corporation.

3. Custodial / Safekeeping Agreement

The trust agreement between the Corporation and the Bank of America is outdated and does not include certain provisions specified in the NAIC FCEH which are needed to adequately safeguard annuity investments. The name of the Trustee should be changed from Seattle-First National Bank to Bank of America and the signatories to the agreement should be updated. In addition, the agreement should include the following provisions specified in the NAIC FCEH:

- Certificated securities of the Corporation shall be held separate from all other securities;
- Those securities held indirectly by a custodian, or in a clearing corporation, shall be separately identified on the custodian's official records as being owned by the Corporation;
- The custodian is obligated to indemnify the Corporation for any loss of securities in the custodian's custody to the extent that such loss was caused by the negligence or dishonesty of the custodian;
- In the event of a loss of the securities for which the custodian is obligated to indemnify the Corporation, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced;
- In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of

domicile may accept a standard of liability applicable to the agent that is different from the standard liability;

- If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;
- During regular business hours, and upon reasonable notice, an officer or employee of the Corporation, an independent accountant selected by the Corporation and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the Corporation;
- The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation, which the clearing corporation permits to be redistributed including reports prepared by the custodian's outside auditors, to the Corporation, on the clearing corporations respective systems of internal control
- The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the Corporation's securities held by the custodian;
- The custodian shall secure and maintain insurance protection in an adequate amount.

It is recommended that the trust agreement be updated and revised to comply with the NAIC FCEH and include the aforementioned safeguards and controls.

ORGANIZATION PROFILE

History: In 1903, the seat of the diocesan government was moved from Vancouver, Washington to Seattle, Washington. Four years later, on September 11, 1907, the diocese was officially renamed after the city of Seattle. On June 23, 1951, the Seattle diocese was elevated to an archdiocese.

On October 28, 1997, Bishop Alex J. Brunett of Helena, Montana, was appointed the fourth Archbishop of Seattle, and remains so today.

Territory and Plan of Operation: On October 1, 1984, the OIC granted the Corporation a Certificate of Exemption to conduct a CGAB in the state of Washington. As of December 31, 2004, there were 84 annuity contracts in-force.

Total Net Assets: The Corporation's adjusted total net assets, as determined by this examination, were \$54,806,000. This amount included unrestricted net assets of \$36,948,000 and satisfies the \$500,000 minimum unrestricted net asset requirement under RCW 48.38.010(6).

Growth: The growth of the Corporation over the past five years is shown in the following schedules. All information is from the Corporation's audited June 30 fiscal year financial statements and differs from the calendar year financial statements in this examination report.

Schedule 1 – Balance Sheet

Fiscal Year	Assets	Liabilities	Total Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted
2004	\$ 175,093,000	\$ 116,289,000	\$ 58,804,000	\$ 32,852,000	\$ 15,095,000	\$ 10,857,000
2003	173,930,000	114,240,000	\$ 59,690,000	33,077,000	15,775,000	10,838,000
2002	181,573,000	112,668,000	\$ 68,905,000	42,179,000	13,673,000	13,053,000
2001	179,378,000	106,883,000	\$ 72,495,000	53,024,000	9,015,000	10,456,000
2000	175,441,000	105,524,000	\$ 69,917,000	51,065,000	10,003,000	8,849,000

Schedule 2 – Statement of Income and Expenses and Changes in Net Assets

	2004	2003	2002	2001	2000
Change in unrestricted net assets					
Revenues and gains (losses)	\$ 36,265,000	\$ 26,466,000	\$ 22,072,000	\$ 28,342,000	\$ 29,187,000
Expenses	(36,490,000)	(35,568,000)	(32,918,000)	(28,297,000)	(25,206,000)
Increase (decrease) in unrestricted net assets	(225,000)	(9,102,000)	(10,846,000)	45,000	3,981,000
Changes in temporarily restricted net assets	(680,000)	2,102,000	4,274,000	(988,000)	371,000
Changes in permanently restricted net assets	19,000	(2,215,000)	2,597,000	1,607,000	216,000
Increase (decrease) in net assets	(886,000)	(9,215,000)	(3,975,000)	664,000	4,568,000
Net assets at beginning of period	59,690,000	68,905,000	72,880,000	A 71,831,000	B 65,349,000
Net assets at end of year	\$ 58,804,000	\$ 59,690,000	\$ 68,905,000	\$ 72,495,000	\$ 69,917,000
Number of gift annuity contracts at end of year	84	74	67	52	41

A – In 2003, the financial statements for the year ended June 30, 2002, were restated to correct amounts payable to parishes which had been incorrectly calculated in prior years. The restatement increased temporarily restricted and total net assets as of June 30, 2001, by \$385,000.

B – During the year ended June 30, 2002, the Corporation determined that the assets set aside for the Priest Medical Plan were not segregated in trust for that purpose. The effect of the correction was to increase net assets by \$1,914,000 as of July 1, 2000.

AFFILIATED ORGANIZATIONS

The Archdiocese of Seattle is one of the 170 geographic responsibility centers (dioceses) of the Roman Catholic Church in the United States. It is affiliated with the international Roman Catholic Church. Independent corporations with whom the Archdiocese is affiliated include Catholic Community Services of Western Washington, the Archdiocesan Housing Authority, the Fulcrum Foundation and the One Hundred Fiftieth Anniversary Campaign Fund.

MANAGEMENT AND CONTROL

Management: Pursuant to Chapter 24.12 RCW, Archbishop Alexander Joseph Brunett is deemed to be a corporate body, with all privileges provided by law for religious corporations. The Archdiocesan Finance Council, Pastoral Council, Presbyteral Council, and Consultors, advise the Archbishop on significant issues impacting the Church. The Delegates for Administration and Finance, Chancery Operations and Planning, Human Resources, Communications, Catholic Faith Formation, Youth Ministries, Religious, Vicar for Clergy, Chancellor, and Superintendent of Schools, manage the various operational areas of the Church on behalf of the Archbishop.

Board of Trustees: Under the provisions of 24.12 RCW, the Corporation does not have a Board of Trustees. Instead, the Corporation has four advisory bodies (The Archdiocesan Finance Council, Pastoral Council, Presbyteral Council, and Consultors) which provide guidance to the Archbishop on significant issues.

Officers: The Corporation does not have any officers and is led by a single individual, the Archbishop, who is appointed by papal decree.

Tax Status: The Corporation holds tax exempt status under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: The Corporation does not have a Conflict of Interest Policy. (See COMMENTS AND RECOMMENDATIONS No. 1)

CORPORATE RECORDS

The Director of Finance and Administration and the Director of Planned Giving meet at least annually to discuss investment policy and to review investments for compliance with the authorized investment plan. The Charitable Gift Annuity assets are held in trust with the Bank of America. As the trustee, the Bank of America manages the trust in accordance with the authorized investment plan of the Corporation.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary with Milliman, Inc., reviewed the adequacy of the annuity reserves and issued a Statement of Actuarial Opinion which stated that he is a member of the American Academy of Actuaries and meets its qualification standards. His opinion states that the Corporation's annuity contract reserves computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be \$2,150,000. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), is shown as Examination Adjustment A1. (See INSTRUCTION No. 1)

ANNUITY ASSETS CUSTODIAL FUNCTION

The assets of the separate reserve fund are physically segregated from the other assets of the Corporation. Total annuity investments, as a result of this examination, were \$2,984,000, and consisted of cash equivalents, bonds, and stocks. Investments were recorded at fair value. The Corporation's CGAB assets are held in trust by the Bank of America. The terms of the trust are specified in a written agreement between the Corporation and the Bank of America. (See COMMENTS AND RECOMMENDATIONS No. 3)

SUBSEQUENT EVENTS

There were no material events which impacted the Corporation's CGAB between the examination date and the last day of our field work.

ACCOUNTING RECORDS AND PROCEDURES

Except as noted in this report, the records and source documentation supported the data and amounts presented in the Annual Reports and financial statements.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of the Corporation as of December 31, 2004:

Balance Sheet

	<u>Balance Per</u> <u>Annual Report</u>	<u>Exam</u> <u>Adj.</u>	<u>Examination</u> <u>Adjustments</u>	<u>Adjusted</u> <u>Balance</u>
<u>ASSETS</u>				
Cash	\$ 2,820,000			\$ 2,820,000
Receivables	66,207,000			66,207,000
CGAB Investments	2,984,000			2,984,000
Other Investments	67,773,000			67,773,000
Other Assets	31,977,000			31,977,000
Total Assets	<u>\$ 171,761,000</u>		<u>\$0</u>	<u>\$ 171,761,000</u>
<u>LIABILITIES</u>				
Current Liabilities	518,000			518,000
CGAB Reserves	-	A1	2,365,000	2,365,000
Accrued Employee Benefits	699,000			699,000
Custodial Liabilities	11,685,000	A2	319,000	12,004,000
Other Liabilities	101,369,000			101,369,000
Total Liabilities	<u>114,271,000</u>		<u>2,684,000</u>	<u>116,955,000</u>
<u>NET ASSETS</u>				
Unrestricted	39,632,000	A1&A 2	(2,684,000)	36,948,000
Temporarily restricted	4,940,000			4,940,000
Permanently restricted	12,918,000			12,918,000
Total Net Assets	<u>57,490,000 *</u>		<u>(2,684,000)</u>	<u>54,806,000</u>
Total Liabilities and Net Assets	<u>\$ 171,761,000</u>		<u>\$0</u>	<u>\$ 171,761,000</u>

* Per the Corporation's filed Annual Report, the Total Net Assets balance reported on the Balance Sheet does not agree with the balance reported on the Statement of Income and Expenses. The statements are out of balance by \$1,893,000. Exam adjustment A2 corrects this discrepancy. (See INSTRUCTION No. 2)

Statement of Income and Expenses and Changes in Net Assets

	<u>Balance Per Annual Report</u>	<u>Exam Adj.</u>	<u>Examination Adjustments</u>	<u>Adjusted Balance</u>
Changes in unrestricted net assets				
Revenues	\$ 39,917,000			\$ 39,917,000
Expenses	(44,641,000)	A2	(2,152,000)	(46,793,000)
Provision for CGAB Reserves		A1	(2,365,000)	(2,365,000)
Increase (decrease) in unrestricted net assets	(4,724,000)		(4,517,000)	(9,241,000)
Changes in temporarily restricted net assets	1,694,000	A2	(60,000)	1,634,000
Changes in permanently restricted net assets	634,000			634,000
Net Assets at beginning of year	61,779,000		-	61,779,000
Net Assets at end of year	<u><u>\$ 59,383,000</u></u> *		<u><u>\$ (4,577,000)</u></u>	<u><u>\$ 54,806,000</u></u>

* Per the Corporation's filed Annual Report, the Total Net Assets balance reported on the Balance Sheet does not agree with the balance reported on the Statement of Income and Expenses. The statements are out of balance by \$1,893,000. Exam adjustment A2 corrects this discrepancy. (See INSTRUCTION No. 2)

A1 - To recognize the Charitable Gift Annuity Business (CGAB) Reserves as a liability. (See INSTRUCTION No.1)

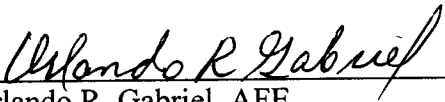
A2 - To adjust the Annual Report to agree with the Corporation's financial records. As stated in Instruction No. 2, annuity custodial activity totaling \$319,000 was incorrectly classified in the Balance Sheet as part of unrestricted net assets instead of as a liability. The adjustment, shown above in the Balance Sheet, was made to correctly report the annuity custodial activity as a liability instead of as a net asset. In addition, the Statement of Income and Expenses did not properly reflect all of the fund activity for the year. The statement did not disclose the changes in net assets from Fixed Asset Fund depreciation and other small amounts totaling \$2,152,000 and Crozier Society and Mission activity totaling \$60,000. The adjustments, shown above in the Statement of Income and Expenses, were made to properly disclose the missing activity. (See INSTRUCTION No. 2)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the employees of the Corporation during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Gaynard, CPA, CFE, FLMI, Life and Disability Field Supervising Examiner; and Albert Karau, Jr., CPA, FLMI, Insurance Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



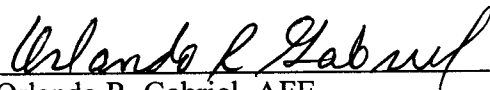
Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

AFFIDAVIT


STATE OF WASHINGTON }
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COUNTY OF KING }

Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of the Corporation's CGAB was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).


Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 7th day of February, 2007.


Notary Public in and for the
State of Washington,
Residing at Seattle

